



Automating the Existing Account Review Process

FEDERATION of CREDIT
and FINANCIAL PROFESSIONALS

EXECUTIVE SUMMARY

An aspect of a sound Credit Policy is the review of existing accounts. While that is sometimes accomplished during the day-to-day process of reviewing larger orders or dealing with those persistent overdue customers who insist on wanting to purchase your products and services on open account, while sometimes being as equally persistent in not paying you on time. In the meantime, a large percentage of accounts go by for extended periods of time, without attention. Having to do so in the crush of the moment, with orders pending, is actually a self-fulfilling prophecy. The following is an attempt to avoid that issue, to an extent at least, since our world just does not work that way. Right?

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Workflow Automation #4: Existing Account Reviews

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At the beginning of this series I mentioned that automating repetitive work processes has been available for a long time. Even a system designed in the latter part of the last century could handle the basics. With today's technology, much more automation is possible, thus allowing the Credit Professional, you the reader, to spend more productive time doing what you need to do the most, making sound, well informed, Business Credit Decisions. The first three parts of the series covered so far include the initial review of the Credit Application and Sales Agreement, the time sensitive cash application process and collections. Another aspect of a sound Credit Policy is the review of existing accounts. While that is sometimes accomplished during the day-to-day process of reviewing larger orders or dealing with those persistent overdue customers who insist on wanting to purchase your products and services on open account, while sometimes being as equally persistent in not paying you on time. In the meantime, a large percentage of accounts go by for extended periods of time, without attention. Having to do so in the crush of the moment, with orders pending, is actually a self-fulfilling prophecy. The following is an attempt to avoid that issue, to an extent at least, since our world just does not work that way. Right? Do not fret about that, because Credit Professionals are like offensive linemen in football, unsung heroes who do all of the dirty work, while the glory goes to sales people, I mean, running backs and QBs.

Information Required for the Process

In order to automate this workflow, the necessary data and tasks are somewhat similar to the initial review:

Databases:

- Credit Reporting Agencies
- Industry Credit Group Reports
- List of Competitors
- List of Sales Associates and Branch Managers
- List of Credit Department Personnel
- Customer Master List
- Aged Trial Balance
- Open AR Items
- Collection Notes

Tasks:

- Compilation of information
- Follow-up for errors or missing information
- Various what-if scenarios, including thresholds for additional action
- Various notifications
- Certain manual tasks, such as telephone calls, that cannot be automated, other than the distribution to the appropriate people.

Hopefully, after having already begun the automation process, this will be available from the beginning. As before, the step-by-step automation process will include reading the data, and taking those steps

Why Do This?

Just as death and taxes are the only certainties in life, as they say, it is equally certain that businesses do not sit still over time, at least most of them anyway. Some thrive and grow, while others decline. The latter category will not always be the fault of management or the owners of those companies. Quite often, it is the actions of others that catch these companies at the wrong time. Therefore, it is prudent for a Credit Policy to include a regular review of existing customers, even those in the thriving category. Note that I say “prudent”, since, as always, any of the suggestions or recommendations made by FCFP are contingent upon where they may fit within your company’s general policies and requirements.

Overview

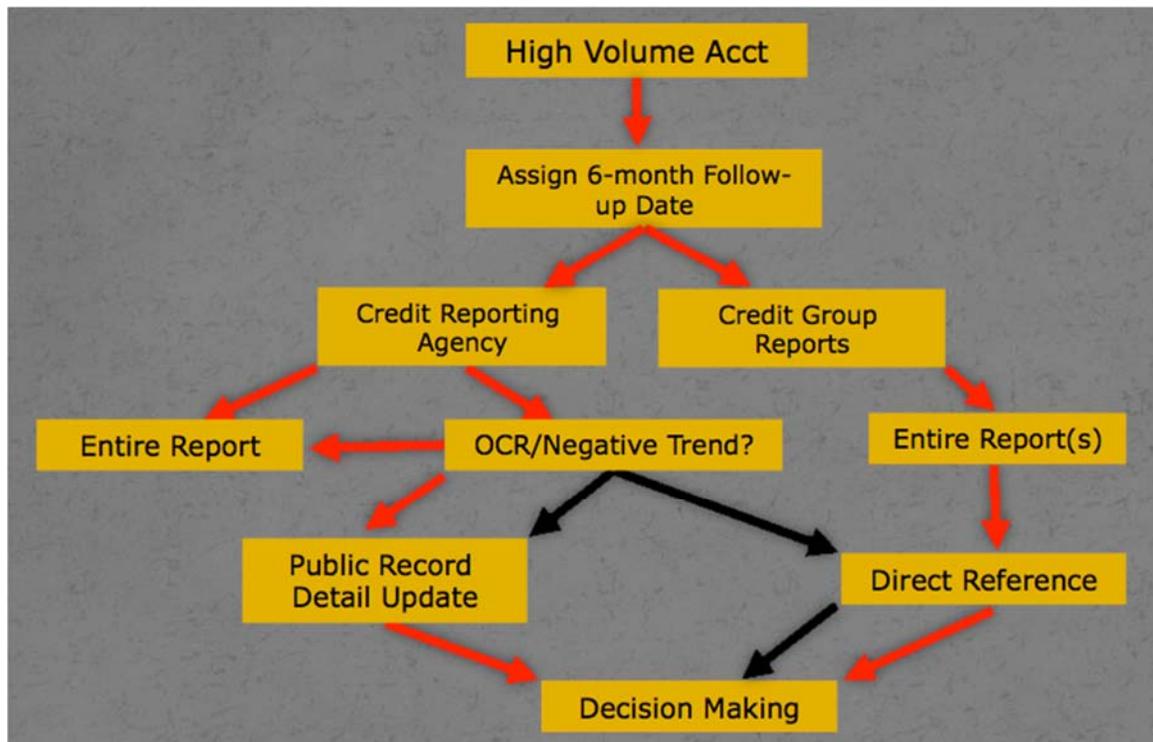
To begin the process, it is important to set some parameters as to what accounts get updated when and how often. Suggestions:

- High-volume accounts, both by transaction count and AR balance: 6-month routine review.
- Mid-level accounts, within a defined range: Annual review.
- Small dollar volume, low transaction count: 18-month review, perhaps 24 months.
- Previous Problem Accounts (This is a category of once-troubled customers, who appear to have recovered from their problems): 6-month review, changed to whichever category above that is appropriate, after three reviews.
- Alerts regarding public record changes (Alerts in general?): immediate, to either ignore, as insignificant, or to trigger an update and review.

This may, at first glance, appear to be an impossible task (been there), until you consider that much of the problem was the information compilation stage. With an automated process in place, you get to review the results and make a decision to either leave it as is, or to make a change, in a positive or negative direction. Subordinate staff will have already benefited from other automated tasks, so they are free to assist, within pre-set guidelines and levels of authority. Also, generally speaking, these reviews, except for any significant alerts, will be a secondary, but still important, priority.

Also, since these are mostly routine reviews, you may wish to delegate parts of the process to subordinates, within the pre-determined level of authority mentioned above. The important aspect of it all is that the accounts are not simply being lost in the moment.

High Volume Accounts



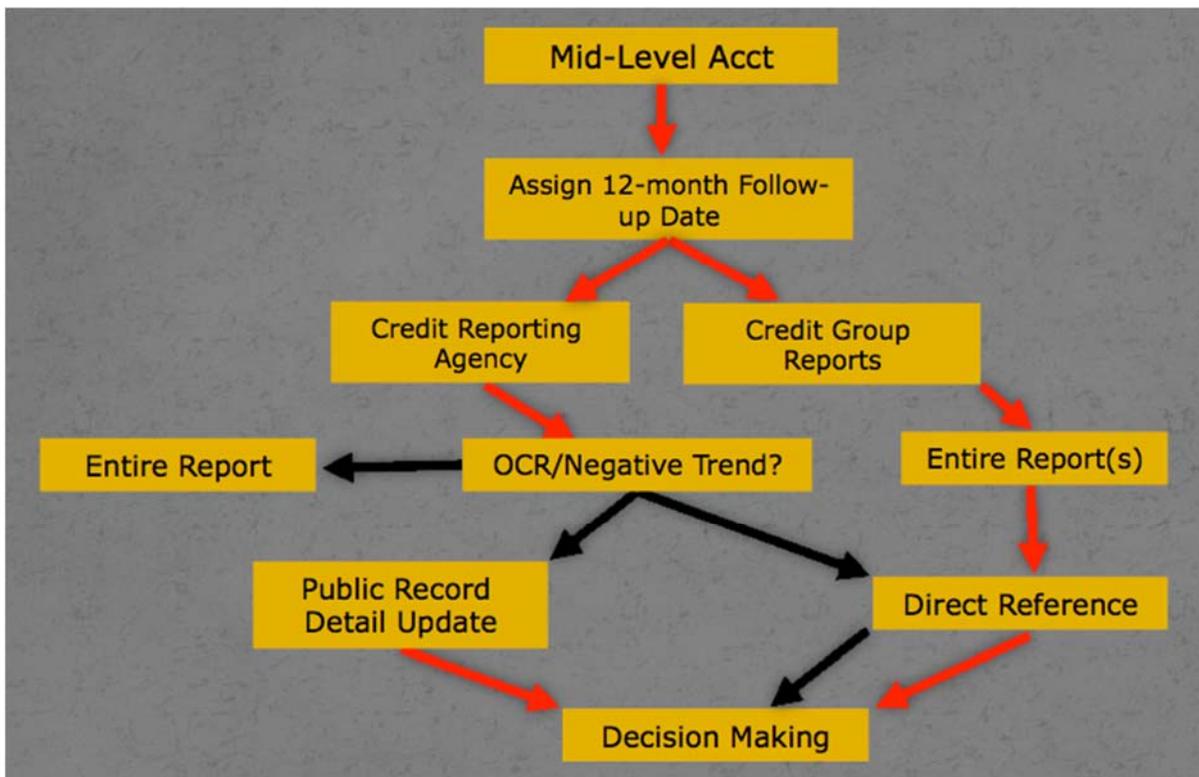
Depending upon your industry and order processing, you may already look at these accounts on a regular basis. However, much of those opportunities will generally be shortened by the next order or customer service crisis, so you will tend to be reactive, rather than proactive. It is not a bad thing, since you are simply doing your job, but it may not allow time for you take the next step, which is to proactively look for ways to avoid the next rush order release or, perhaps, be able to notify the sales department to either slow down or speed up their efforts to sell more. You can do that by doing a file update and review. The issue is the time it will take, so this yet another chance to automate the mundane aspect, gathering the information:

- What you may want, first, is a general view, so the places to look are the various credit reporting agencies, such as Credit2B, Dun and Bradstreet, etc.:
 - If you are normally a higher-volume user of the agency's reports, there may be an option for a direct connection. With this, and an account pre-coded for this review process, you can easily download a report directly into you file. You may also have access just to any rating available. Recalling the earlier sections of this series, the OCR capability may allow you to screen for adverse changes only, and then you can download the entire report.
 - Certain state and county jurisdictions may allow access online, so you can download the details for public record changes, previously noted in the report scan.

- Given the initial credit review process, where you developed a database of trade reference contacts, you can use a macro and the OCR process to obtain a direct reference update, either routinely or when certain general adverse changes are captured in the initial scan.
- If you are a member of an industry trade group, which is highly recommended, if there is one available, a member may submit an account only if it is past due or it is agreed that it will be reviewed regularly. You assume that a high volume customer will also buy from other group members, and that its absence from group reports may be interpreted as it paying, generally, on time. OCR can scan recent reports for your customer, and, then, if present, download the data for your review.
- At the end of the process, you will have sufficient data for the review, which will allow you to make appropriate changes.

Imagine the “old way” of doing account reviews, wherein, even when you have a “tickler” to remind you, all of the processes were still manual. Now, by using macros and so forth, the red lines on the graphic show just how much of that work can be automated. Once the information is systematically compiled, that is when you manually review that information, to make your business credit decision.

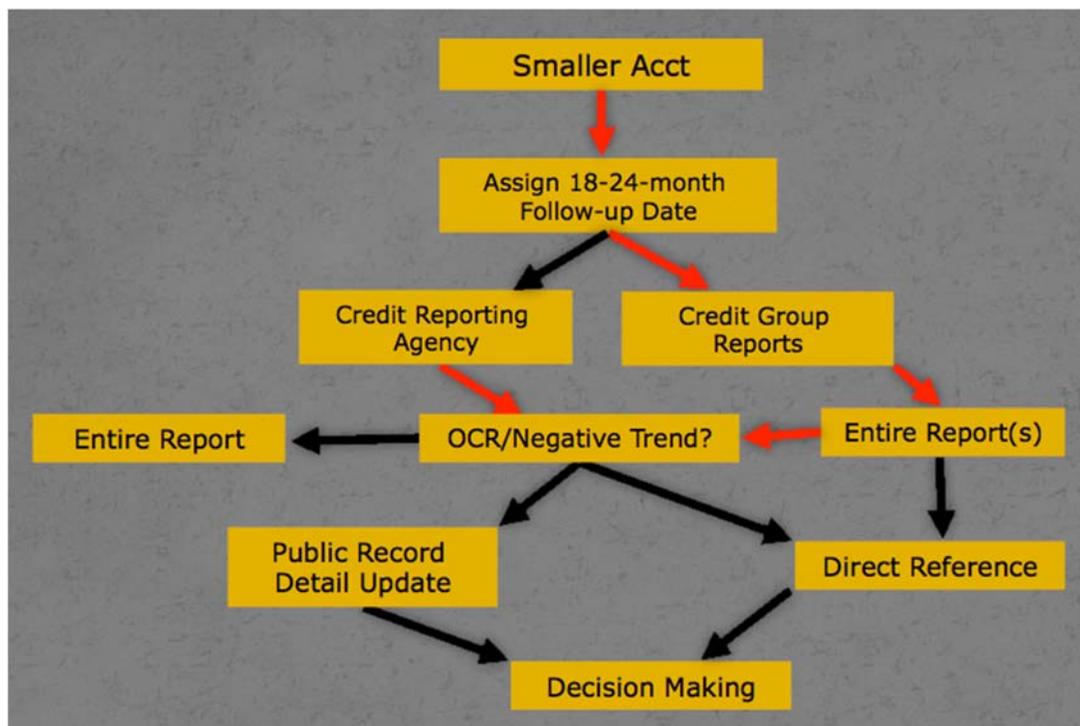
Mid-Level Accounts



The process for this type of customer is essentially the same, except for cost considerations. Rather than allowing the system to recognize negative trends or new negative information, and then allow that system to pull an expensive report, there is a break to allow someone in the Credit Department to make an informed decision to pull that report.

When this part of the automated review process is set up, there is another important step to consider. You are not going to be looking at most of these accounts on a daily basis, as you will with the larger ones. Also, you are more likely to have a subordinate assigned to many or most of them. To assist them, establish some account parameters that will trigger an alert. That alert will allow the opportunity to jump ahead of the process. Exactly what parameters you use will depend upon your company policies, concerning what may be considered as something negative. Generally, this will involve a change in payment patterns and increasing amounts open beyond terms or certain aging buckets. It may also include a trend where the balance is exceeding the assigned credit limit too often. Even the often-overlooked change of address can be formatted to trigger a review alert automatically. In fact, any change to the customer master file, even an assignment to a different sales associate could flag it.

Smaller Accounts



The same general graphic is used throughout this paper, to show the relationship between OCR/macros/ filters and the manual processes. Most importantly, they show a trend toward more human intervention with smaller accounts, which is not entirely necessary. It simply points to cost control when the investment is smaller, per account. In all cases, some degree of human thought is required for every account, concerning the ultimate decision to be made. With the smaller accounts, this may be to change the follow-up date only, with reliance on the alert process to further monitor activity. For the larger or mid-level customers, the automation process frees up a lot of time, for everyone that can be better spent on the decision-making, additional follow-up, such as requesting financial statements, calls to the field or customer, and so on.

Decision-Making

Depending upon policies, needs and requirements, some degree of decision-making can also be automated. For instance, the absence of negative trends in the OCR review of the various reports, which could also include consumer reports where applicable, along with positive account activity on the account itself could allow for an automatic credit availability increase. Of course, there must be a ceiling on such an increase, but it could still stimulate additional purchase activity. Consider, for instance, after a certain time passage from account set-up, regular payments and monthly purchases, plus a clean record elsewhere, you could automatically increase the availability and notify the customer, with a big "Thank you". The same could be done in the opposite direction, as well, but within more restrictive parameters. Again, this should be done only within your company policies.

Summary

In my experience, Senior Management will need substantial justification for an expenditure on a sophisticated automated workflow system. At the same time, wages and salaries are also the largest single expense for a company. No one wants to eliminate jobs, but it is also getting more and more difficult to get approval to add staff. This could be the answer, by convincing Senior Management, that you can add value to the Order-to-Cash process, Asset Management and limiting Bad Debt losses, be re-allocating staff people to more important activities. The opportunities for Credit Professionals to spend more premium time on supporting sales growth, with informed sound Business Credit Decisions, will do nothing but benefit everyone concerned, from the ownership of your company, to the customer(s).

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***A Primary Source
for
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